

Message Text

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ACTION EUR-25

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PM-07 INR-10 L-03 NEA-10 NSAE-00 PA-04 PRS-01 USIA-15

SAJ-01 COME-00 ABF-01 DRC-01 ACDA-19 SCEM-02 AF-10

IO-14 CEQ-02 EPA-04 SCI-06 USPS-02 DOTE-00 /216 W

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FM AMEMBASSY OSLO

TO SECSTATE WASHDC 7250

INFO USMISSION EC BRUSSELS

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AMEMBASSY HELSINKI

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

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SUBJECT: THE NORWEGIAN BUDGET PROPOSALS FOR 1974

REF: OSLO 3740

1. SUMMARY. THE BUDGET PROPOSALS FOR 1974 SUBMITTED ON OCTOBER 11 BY THE OUTGOING NORWEGIAN GOVERNMENT CONTAINED NO REAL SURPRISES. SOME RELATIVELY MINOR CHANGES ARE EXPECTED BY THE NEW LABOR GOVERNMENT PRIOR TO ADOPTION OF THE BUDGET, PROBABLY IN MID-DECEMBER. THE BUDGET SEES THE ECONOMY EXPANDING 5.4 PERCENT IN 1974 COMPARED TO 4.3 PERCENT IN 1972 AND 1973. TOTAL BUDGETED REVENUE AND EXPENDITURES ARE TO RISE 11 PERCENT AND ARE BALANCED AT DOLS 9.6 BILLION EACH, EQUIVALENT TO 49.5 PERCENT OF FORECAST GNP. THESE ARE RELATIVELY MODEST INCREASES FOR RECENT NORWEGIAN BUDGETS. DEFENSE SPENDING PROPOSALS CALL FOR A UNCLASSIFIED

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1.1 PERCENT REAL INCREASE WITH SOMEWHAT LARGER INCREASES TARGETED FOR FUTURE YEARS. TAXES WILL RISE SLIGHTLY, BUT THE BUDGET APPEARS UNLIKELY TO CONTRIBUTE GREATLY TO STEMMING INFLATION. END SUMMARY

2. THE FINANCE MINISTER IN THE OUTGOING KORVALD GOVERNMENT SUBMITTED HIS PROPOSED BUDGET FOR 1974 (CALENDAR AND FISCAL YEARS COINCIDE) TO THE STORTING (PARLIAMENT) ON OCTOBER 11. THE BUDGET WILL GO TO THE STORTING'S FINANCE COMMITTEE AND THEN TO THE STORTING AS A WHOLE. ADOPTION IS UNLIKELY BEFORE MID-DECEMBER. THE INCOMING LABOR GOVERNMENT WILL MAKE SOME CHANGES IN THE BUDGET PROPOSALS. HOWEVER, THESE CHANGES ARE NOT EXPECTED TO BE FAR REACHING AND WILL PROBABLY INVOLVE RELATIVELY MINOR SHIFTS IN RESOURCE ALLOCATIONS AND TAX PROPOSALS. FOR EXAMPLE THE LABOR PARTY IS PLEDGED TO SUBSTANTIALLY HIGHER INCOME TAX REDUCTIONS FOR LOWER AND MEDIUM INCOMES AND INCREASED TAXATION ON HIGHER INCOME BRACKETS.

3. THE BUDGET IS BASED ON PROJECTIONS OF A CONTINUED UPTREND IN DEMAND BOTH AT HOME AND ABROAD, ALTHOUGH DEMAND FROM THE U.S. IS SEEN AS TAPERING OFF SLIGHTLY. GNP IS EXPECTED TO GROW 5.4 PERCENT IN 1974 VERSUS 4.3 PERCENT 1973 AND 1972 WITH OIL EXPLORATION ON NORWAY'S CONTINENTAL SHELF CONTRIBUTING AS MUCH AS 1 PERCENT OF THIS GROWTH. OVERALL, THE PROPOSED BUDGET IS DOUBLE THE NORWEGIAN BUDGET FOR 1969 BOTH IN TERMS OF REVENUE AND EXPENDITURE. MEANWHILE, PRICES HAVE RISEN APPROXIMATELY 36 PERCENT. THE BUDGET REPRESENTS 49.5 PERCENT OF EXPECTED GNP COMPARED WITH 46.6 PERCENT IN 1973. AS IS CUSTOMARY THE BUDGET WAS PRESENTED IN TWO PARTS--A FISCAL BUDGET AND A SOCIAL SECURITY BUDGET--WHICH TOGETHER AMOUNTED TO 51 BILLION KRONER (DOLS 9.6 BILLION AT THE AVERAGE RECENT RATE OF NKR 5.5 - DOLS 1.00), AN 11 PERCENT INCREASE OVER 1973.

4. TOTAL PROPOSED EXPENDITURES IN THE FISCAL BUDGET ARE UP 11.5 PERCENT TO DOLS 6.2 BILLION. TOTAL REVENUE IS TO RISE 11.5 PERCENT TO DOLS 5.4 BILLION LEAVING DOLS 818 MILLION TO BE FINANCED BY BORROWING AND DRAWING ON TREASURY CASH HOLDINGS. THESE PERCENTAGE INCREASES ARE SIMILAR TO THOSE IN THE 1973 BUDGET AS IS PROVISION FOR A TECHNICAL UNCLASSIFIED

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DOLS 55 MILLION SURPLUS BEFORE LOAN TRANSACTIONS. HIGH PRIORITY IS GIVEN TO INCREASED EXPENDITURE FOR FOREIGN AID, INVESTMENT IN HYDROELECTRIC POWER DEVELOPMENT, TELECOMMUNICATIONS, EDUCATION, RESEARCH, AND HEALTH. MAJOR ITEMS OF EXPENDITURE INCLUDE EDUCATION AND RESEARCH (DOLS 727 MILLION), INLAND TRANSPORT (DOLS 636 MILLION), LOANS TO STATE BANKS (DOLS 600 MILLION), AND DEFENSE.

5. WITHIN THE FISCAL BUDGET, DEFENSE EXPENDITURES OF DOLS 673 MILLION ARE PROPOSED, UP 7.6 PERCENT OVER 1973 BUT ONLY 1.1 PERCENT IN REAL TERMS BECAUSE OF INFLATION. (THE LONG-TERM BUDGET FORECAST INCLUDED IN THE 1974 PROPOSALS PROVIDES FOR AN INCREASE OF 1.9 PERCENT A YEAR IN REAL

TERMS BETWEEN 1974 AND 1977.) FOREIGN AID IS TO BE INCREASED 21 PERCENT TO DOLS 126 MILLION, UP TO 0.65 PERCENT OF GNP FROM 0.57 PERCENT IN 1973. NATIONAL LIBERATION MOVEMENTS IN SOUTHERN AFRICA WILL RECEIVE DOLS 1.2 MILLION FOR "HUMANITARIAN ECONOMIC PURPOSES."

6. MAJOR SOURCES OF REVENUE FOR THE FISCAL BUDGET ARE THE VALUE ADDED TAX AND INVESTMENT TAX (DOLS 2.5 BILLION), CAPITAL ASSET AND INCOME TAXES (DOLS 800 MILLION), AUTOMOBILE TAXES (DOLS 545 MILLION), AND THE ALCOHOL TAX (DOLS 255 MILLION). AN AVERAGE INCREASE OF ABOUT 10 PERCENT WAS PROPOSED IN THE CHARGE FOR MANY GOVERNMENT SERVICES, INCLUDING TELECOMMUNICATIONS, MAIL, PUBLIC TRANSPORT, AND COASTAL SHIPPING SERVICES. EXCISE TAXES ON GASOLINE WILL BE RAISED SHARPLY AND NEW ENVIRONMENTAL TAXES IMPOSED ON THROW AWAY BEVERAGE CONTAINERS AND PLASTIC BAGS. TAX REDUCTIONS ARE NEGLIGIBLE.

7. THE PROPOSALS FOR THE SEPARATE SOCIAL SECURITY BUDGET, WHICH IS LARGELY FINANCED BY SEPARATE EARMARKED TAXES, PROVIDE FOR NO INCREASES IN TAX RATES AND ONLY A MODEST INCREASE IN BASE RETIREMENT PAY TO KEEP PACE WITH INFLATION. REVENUE WILL RISE 14.7 PERCENT TO DOLS 3.3 BILLION AND EXPENDITURES 12.2 PERCENT TO DOLS 3 BILLION, LEAVING AS IN PAST YEARS A SMALL SURPLUS. OUTLAYS FOR RETIREMENT BENEFITS WILL RISE 8 PERCENT TO DOLS 1.1 BILLION. DISABILITY AND REHABILITATION BENEFITS WILL RISE 20 PERCENT

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TO DOLS 600 MILLION WHICH WILL PROBABLY STIR FURTHER CONTROVERSY OVER ABUSES OF THE PROGRAM. IF THE BUDGET IS APPROVED, IT WILL BE THE FIRST YEAR FOR SOME TIME THAT NEITHER TAX RATES NOR THE ABSOLUTE LEVEL OF BENEFITS HAVE BEEN INCREASED. EVEN SO THE SOCIAL SECURITY BUDGET WILL BE LARGER THAN THE FISCAL BUDGET IN 1969.

8. COMMENT: THE PROPOSED BUDGET CONTAINS NO SURPRISES. ALTHOUGH MODESTLY LESS EXPANSIONARY THAN RECENT BUDGETS, WITH THE EXCEPTION OF LAST YEAR'S BUDGET, IT LARGELY FAILS TO BITE THE INFLATIONARY BULLET. INFLATION IS NORWAY'S PRINCIPLE ECONOMIC PROBLEM AND PLAYED, ALONG WITH THE HIGH LEVEL OF TAXES, A MAIN ROLE IN THE RECENT NATIONAL ELECTION. OBVIOUSLY IT IS ONE THING TO TALK ABOUT TAXES AND INFLATION, AND ANOTHER THING TO DO ANYTHING ABOUT THEM, ESPECIALLY IN A WELFARE STATE WHERE SOCIAL PROGRAMS HAVE GENERAL SUPPORT AND GOVERNMENT FLEXIBILITY IS SMALL. ITEMS SUCH AS OUTLAYS FOR DEFENSE MAY BE EXPECTED TO COME UNDER INCREASING SCRUTINY, ESPECIALLY BY THE INCOMING LABOR GOVERNMENT (SEE OSLO 3740). WHERE THE UPWARD TAX SPIRAL WILL STOP IS DIFFICULT TO SAY, BUT MANY NORWEGIANS LOOK TO ANTICIPATED INCREASES IN REVENUE FROM OFFSHORE OIL EXPLO-

RATION ON THEIR CONTINENTAL SHELF AS THEIR ONLY LONG-RUN
HOPE. BYRNE

NOTE BY OC/T: OSLO 3740 IS AN INCIDENTAL REFERENCE THE DISTRIBUTION
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